

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 EB-08 AID-05 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 IO-13 /071 R

DRAFTED BY TREAS:ODNF:THOOPENGARDNER  
APPROVED BY EB/IFD/OMA JADWIAER  
TRES: ODNFC F MAREFEA  
TRES: ODNFC R TELKIN  
NEA/PAB: JIMULLINGER  
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FM SECSTATE WASHDC  
TO AMEMBASSY ISLAMABAD PRIORITY

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: DISCUSSION AT IMF BOARD ON PAKISTAN STANDBY  
MODIFICATION AND REPURCHASE POSTPONEMENT P

1. ON MONDAY, SEPTEMBER 19, IMF BOARD OF EXECUTIVE  
DIRECTORS APPROVED TWO ACTIONS AFFECTING PAKISTAN: A  
REQUEST FOR AN INCREASE IN CERTAIN CEILINGS SET BY THE  
MARCH, 1977, STANDBY AND A REQUEST FOR A POSTPONEMENT OF  
REPURCHASES TOTALLING SDR 51 MILLION DUE IN 1977 AND 1978.  
IMF DOCUMENTS ON THESE ACTIONS, EBS/77/341 AND EBS/77/346,  
HAVE BEEN POUCHED.

2. DIRECTORS WERE GENERALLY POSITIVE, CITING PAKISTAN'S  
EFFORTS TO COPE WITH NATURAL DISASTERS AND INDICATING  
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STANDBY WAS INTENDED AS HOLDING ACTION. SOME EXPECTED IMF  
BOARD WOULD SEE PAKISTAN ON AGENDA AGAIN, AT WHICH TIME  
CLOSER LOOK COULD BE TAKEN.

3. IN COMMENTING ON THESE ACTIONS, U.S. DIRECTOR NOTED  
FAVORABLY INCREASE IN INTEREST RATES EFFECTED IN 1976/77  
AND 5 PERCENT CUT MADE IN CERTAIN NON-DEVELOPMENT

EXPENDITURES. HE ALSO CONGRATULATED GOP ON BETTER-THAN-EXPECTED BOP PERFORMANCE.

4. U.S. DIRECTOR SAID U.S. HAD NO OBJECTION TO ADJUSTING QUARTER-BY-QUARTER CEILINGS ON BANK ASSETS AND CREDIT TO GOVERNMENT TO REFLECT ALTERED TIMING OF 300 MILLION FOREIGN BANK LOAN, BUT SAID WE COULD FIND NO PERSUASIVE RATIONALE IN THE FUND DOCUMENT FOR INCREASING THE CEILINGS FOR PERIODS AFTER THE ANTICIPATED BANK LOAN IS TO TAKE PLACE.

5. U.S. DIRECTOR POINTED OUT THAT ALTHOUGH PRICE INCREASES MODERATED SLIGHTLY IN 1976/77, DOMESTIC LIQUIDITY EXPANDED OVER 18 PERCENT WHILE GNP REMAINED VIRTUALLY CONSTANT. HE WENT ON THAT IF EXCELLENT FOODGRAIN HARVEST IS NOT REPEATED, INFLATION COULD BECOME SERIOUS PROBLEM. PRICE SITUATION WAS NOT SO MANAGEABLE AS TO JUSTIFY RELAXATION OF CEILINGS AS PROPOSED.

6. GIVEN CURRENT DEBT OUTLOOK, U.S. DIRECTOR SAID IT WAS DIFFICULT TO UNDERSTAND DESIRABILITY OF MAKING EXCEPTION FOR CCC WHEAT IN PROHIBITION ON BORROWING ON COMMERCIAL TERMS WITH 1-5 YEARS MATURITY. U.S. DIRECTOR CONCLUDED REMARKS BY SAYING U.S. WOULD BE "INTERESTED" IN ANY FURTHER MODIFICATIONS IN STANDBY.

7. IN RESPONSE, FUND STAFF POINTED TO ALREADY STRINGENT LIMITED OFFICIAL USE

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GOP BUDGET AND UNAVOIDABLE CURRENT EXPENDITURES. STAFF ADMITTED ACTION WAS INTENDED TO GET PAKISTAN THROUGH HOLDING PERIOD AND THAT IT EXPECTED FURTHER ARRANGEMENTS WOULD BE NECESSARY IN SPRING.

8. BACKGROUND. PAKISTAN'S STANDBY IS FOR SDR 80 MILLION WITH REMAINING PURCHASES SCHEDULED FOR SEPTEMBER, NOVEMBER, AND FEBRUARY. PAKISTAN FAILED TO MEET CEILINGS ON BANKING ASSETS AND CREDIT TO GOVERNMENT IN JUNE, THREE MONTHS AFTER STANDBY AGREEMENT REACHED, AND HENCE WAS INELIGIBLE FOR FURTHER DRAWINGS. PAKISTAN COULDN'T STAY UNDER CEILINGS BECAUSE 300 MILLION FOREIGN BANK LOAN TO BE GUARANTEED BY IRAN DIDN'T MATERIALIZE. STANDBY MODIFICATION BOTH ALTERED QUARTERLY PATTERN OF CEILINGS AND RELAXED THEM, PER PARA 4 ABOVE. MODIFICATION ALSO ADDED CCC WHEAT TO VEGOIL AS EXCEPTIONS TO PROHIBITION ON CONTRACTING DEBT ON COMMERCIAL TERMS WITH ONE TO FIVE YEARS MATURITY. REPURCHASE POSTPONEMENT IN EFFECT RESCHEDULES MONEY BORROWED IN 1974 AND 1975. IMF DOCUMENT ON REPURCHASE POSTPONEMENT CIRCULATED VERY LATE AND ACTION RECEIVED SCANT MENTION AT BOARD.

9. FYI IMF DIRECTORS OPERATE BY CONSENSUS AND NO FORMAL VOTE WAS TAKEN. HOWEVER, THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES, WHICH ADVISES U.S. EXECUTIVE DIRECTOR, FAILED TO REACH AGREEMENT. THIS REFLECTS CONSIDERABLE CONCERN OVER PAKISTAN'S EXTERNAL FINANCIAL SITUATION, CONCERN WHICH WILL BE ONLY PARTLY TEMPERED IF LARGE FOREIGN BANK LOAN EVER IS EXTENDED. END FYI. VANCE

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
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